

Mr. John Muleta
September 9, 1996
Page 6

CAPA Newsletter (CAPA), Apr. 1996, at Regs & Leg. 5-6 (Attachment 22) (describing Pennsylvania measure to implement quick solution to suspected drug trafficking problems associated with payphones); Ryan Koning, Pay-phone Changes Fight Crime, Phoenix Gazette, Apr. 3, 1996 (Attachment 23) (reporting success of Phoenix program); Payphones Against Crime Network, On the Line (CPA, San Ramon, CA), Nov./Dec. 1995, at 31-32, (Attachment 24) (describing P.A.C.NET's ten point program); Douglas Martin, Rotary Pay Phones Return, This Time to Foil Drug Deals, N.Y.T., Jan. 10, 1994, at A1 (Attachment 25) (reporting success of one measure to prevent drug trafficking).

* * * * *

In sum, payphone competition has filled important public needs that would have been left unserved in the absence of competition. Competition has ensured that payphones are installed to provide access to critical emergency and public safety services to people who would otherwise have no access to these services. Competitively provided payphones are also many individuals' only means to access of telecommunications service. Payphones are even used to help prevent crime. But neither IPP providers nor the LECs will be able to respond to these vital functions, unless the Commission acts to ensure that fair compensation is available to payphone service providers.

Sincerely,



Albert H. Kramer

AHK/rw
Attachments

Peekskill, NY

Star

New York City
Met Area

Tuesday

0 8,183

JUL 2, 1996

N4098

LUCE PRESS CLIPPINGS

Legislator criticizes removal of pay phone

Putnam County Legislator Vincent Tamagna has criticized NYNEX Corp. for removing a pay phone from the Continental Village clubhouse. NYNEX, he said, removed the phone last month because it was not earning enough revenue.

"This is a reprehensible development," said Tamagna, R-Philipstown. "Where is NYNEX's vaunted public service commitment?"

NYNEX officials couldn't be reached yesterday, but the telephone company recently removed what it called an underused pay phone at the Putnam Valley Police Department headquarters and said it planned to remove telephones from Putnam Valley Town Hall and Putnam Valley Library.

A NYNEX spokesman said then that underused pay telephones are expensive to maintain and are becoming increasingly obsolete in a world of cellular telephones and other means of communications.

— Peter West

RESPONSE
OF
NEW JERSEY PAYPHONE ASSOCIATION
TO PROPOSED RULE-MAKING

Docket No. TX95100518
Proposal No. PRN 1996-16

March 12, 1996

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I. INTRODUCTION

The New Jersey Payphone Association ("NJPA") is an organization of non-local exchange company ("non-LEC") payphone providers who provide pay telephone service to New Jersey customers. NJPA members are small companies; indeed, many are "Mom and Pop" firms. [The largest, interestingly, is but 1/500th the size of Bell Atlantic-New Jersey, Inc. ("Bell") — the predominant local exchange company ("LEC"), and also the overwhelmingly most significant payphone provider in the State.]

NJPA wishes to comment upon the proposed rule-making proceedings commenced by the Board of Public Utilities ("Board" or "BPU") with respect to operator service providers ("OSPs") and public pay telephone service ("PPTS") providers. NJPA supports many of the provisions suggested by the Board but has strong concerns about a few, as set forth below. Before continuing, we wish to point out that NJPA wholeheartedly agrees with the Board in its efforts to develop a competitive marketplace in which New Jersey consumers can experience the full benefits of open and real competition. The proposals of the Board, however, will not achieve that result. Indeed, they will hurt consumers as well as non-LEC payphone providers.

We have attempted to be as complete as possible with respect to the matters discussed herein. It is clear that this proceeding is of crucial importance to NJPA members; it is equally important, however, to many residents in our towns and cities. The proposed regulations will have drastic and adverse consequences upon the people

whom they are designed to help. It is crucial, therefore, that before the Board implements same, it must explore, in depth, the full ramifications of its proposals.

Our comments will address NJPA's specific areas of concern.

II. RATE PROVISIONS

N.J.A.C. 14:10-6.3(h) provides that the rate for local operator-assisted calls be limited to the tariffed rate for a local operator-assisted call charged by the incumbent LEC.

N.J.A.C. 14:10-6.3(i) provides that an OSP may charge for intrastate operator-assisted non-local calls a rate not greater than \$1.00 above the highest applicable operator-assisted rate for such calls of a tariffed facilities-based carrier on file with the Board on January 1, 1996.

N.J.A.C. 14:10-9.3(g) specifies that the rate for direct-dialed, coin-generated local calls on non-LEC payphones may not exceed the local coin rate charged by the incumbent LEC.

A. IMPACT OF PROPOSED RULES

The Board has determined that some non-LEC payphone providers charge rates which the Board deems excessive. The Board therefore proposes to cap non-LEC payphone provider and OSP rates. Unfortunately, the BPU proposal will be detrimental to the calling public: It will seriously and irreparably injure all non-LEC payphone providers economically and will, in all likelihood, literally drive some of them out of business.

There are those, of course, who will say "Who cares? So what if the non-LEC payphone companies go out of business? Who do they help, anyway?" The answer is that if such companies are driven out of business, many people will be hurt in many ways.

Most of the non-LEC payphone providers in New Jersey, especially the very small operators, are New Jersey residents who live and work in our communities. They support their families and they support payrolls comprised of other employees who also live and work in our municipalities. In fact, the non-LEC payphone industry in New Jersey employs hundreds of people. They contribute to New Jersey's economy and tax base. To impose the rate caps suggested by the BPU without carefully and open-mindedly first examining their impact — without fully exploring the true cause of the problem — will, as demonstrated below, force many out of business. Not only will this be economically disastrous to those affected, it will also negatively impact New Jersey's economy.

Most importantly, however, the Board's proposals will harm those who most need payphones — the many New Jersey residents who rely upon payphone telephone service for communication to the outside world. For many years, non-LEC payphone providers have filled a need not met by the incumbent LECs. NJPA estimates that more than 120 million calls were carried by New Jersey non-LEC payphones in 1995 — more than 340,000 per day! Moreover, while regrettable, it is nevertheless true that many residents in our cities are simply too poor to afford private residential telephone service. In Newark alone, it is estimated that more than

13,000 households, 15% of the population, lack residential telephone service. These individuals depend upon non-LEC pay telephones as their only means of communication to others. Important and even vital calls, such as those to doctors, hospitals or police and fire departments, are carried through NJPA members' phones. Were the Board's proposed rules implemented, such individuals will, without any question, be severely adversely affected, for many of the non-LEC payphone providers who supply service to the poorer communities in our State will no longer be able to do so.

Nor will the impact of such action be minimal. NJPA members have placed more than 1,600 payphones in the Newark community alone. They have also placed more than 500 payphones in Trenton and 600 in Camden, in addition to other cities throughout the State. Statewide, NJPA estimates there to be over 7,000 payphones placed by NJPA members in our major cities — and that does not include non-NJPA member payphones. These payphones are absolutely necessary. They are used, and not just for ordinary telephone conversations — they are needed for emergencies as well. NJPA estimates that more than 400,000 "911" calls are made annually on non-LEC payphones.¹ Those calls have been routed to all manner of emergency services, including not only police and fire departments but ambulance and rescue squads, poison control centers and other crucial services. And of all the non-LEC payphones in our cities, approximately 60% are located in lower income areas. Were the proposed rate caps to be implemented without rectifying the problems non-LEC

¹NJPA will make available to the Board all of the information collected for this proceeding.

payphones experience (discussed below), such action will force many non-LEC payphone companies out of business and, again, quite literally, may well put New Jersey residents in danger. Simply stated, non-LEC payphone companies provide a service to our citizens that the LECs do not.

This is not to say that NJPA members do not recognize the concern of the Board with regard to end user rates. They do. But they also believe that other measures (which we will detail) can be implemented by the Board which will not only avoid the serious economic consequences to be caused by the proposed rules but would actually aid consumers.

B. CAUSE OF HIGHER RATES

The difficulty is that the BPU proposals do not address the real problem. They ignore the causes of higher non-LEC payphone provider and OSP rates. By focusing on the real cause of the problem, discussed below, the BPU can reduce rates to the public even without the need for the proposed rate caps. Examining the real problem is vital, however, if the Board is to truly aid New Jersey residents.

1. Lack of Dial Around Compensation

Recently the Board determined that what is commonly known as "dial around" compensation should be denied to non-LEC payphone providers. The Board's reasoning was premised upon two supposed factors: 1) non-LEC payphone providers do not need dial around compensation because their rates for other calls were already too high, and 2) in any case, dial around compensation would provide little economic benefit to non-LEC payphone providers since the majority of their calls (estimated by



1995 A.P.C.C. Industry Achievement Award Winner

South Carolina Public Communications Association

**1137 South Center Road
Darlington, South Carolina 29532
(803) 393-1843
(803) 393-5588 Fax**

**Mr. John Muletta
Chief of Enforcement Division
Federal Communications Commission
Common Carrier Bureau
1919 M Street, NW
Washington, D.C. 20554**

September 3, 1996

Dear Mr. Muletta,

I am writing to you as the President of the South Carolina Public Communications Association, as well as the President of my company, Carolina Payphone Systems.

I understand, through the American Public Communications Council, that you are interested in any documentation as to the value that pay telephones contribute to the public. South Carolina is not a densely populated state, as you can well imagine. Many of our Independent operators provide pay telephone services to very small rural and remote locations throughout the state. In many instances, pay telephones which have been placed by Independent Pay Telephone Operators, may in a small community provide the only source of connection to the telecommunications network. These services are essential to the various groups of people who do not have phones in their homes. These include, the financially disadvantaged, the homeless, the indigent, and of course, the person who is traveling away from their home and may not have available any type of cellular telephone. Many of the rural telephone companies (LECs) in South Carolina simply do not focus on the provisioning of pay telephone services. Independent Pay Telephone Operators help to fill this void, by placing Public Pay Telephones in locations where these LECs do not.

I am sending along with this letter two items.

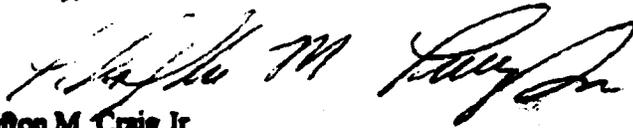
- 1) A copy of this week's agenda from the South Carolina Public Service Commission. Please take note of item # 4, whereby BellSouth Telecommunications, Inc. is seeking a tariff revision to discontinue Semi-Public pay telephones, in South Carolina. Who will fill this void, and how many locations are we talking about?
- 2) A copy of my testimony which I presented to the South Carolina Public Service Commission last November in Docket # 95-720-C.

To ascertain what all of this means please refer to the documentation provided by BellSouth which is listed as "CRAIG EXHIBIT 1) in my testimony. BellSouth if it's tariff is approved will discontinue serving 1473 customers who are being served by Semi-Public Pay Telephone Service. This leaves the Independent Pay Telephone Operators to, if you will, act as the Carrier of Last Resort in regards to Pay Telephone Services, at these locations. Our Association, as well as the A.P.C.C. feel a sense of responsibility to our neighborhoods and communities to try to provide Public Pay Telephone services where there is truly a need, not necessarily with regard to income potential. We shall strive to continue this in our operations.

I hope that you will take the time to read my testimony and look at the enclosed exhibits. I think this will give you a more complete picture of the Independent Pay Telephone Industry, at least, in South Carolina.

I thank you for your time and consideration.

Sincerely,



Clifton M. Craig Jr.
President, South Carolina Public Communications Association

UTILITIES DEPARTMENT AGENDA
WEEK OF SEPTEMBER 2, 1996
COMMISSION ADVISED ITEMS
PAGE ONE

COMMISSION ADVISED OF THE FOLLOWING ITEMS:

1. TARIFF NO. 96-280 - DIAL & SAVE OF SOUTH CAROLINA, INC. D/B/A DIAL & SAVE, in its S.C.P.S.C. Tariff No. 1, is introducing Small Business 800 and Enhanced Services and a promotional offering, LDMTS Promotion, through December 31, 1996. In accordance with Commission Order No. 84-622 in Docket No. 84-10-C, rate revisions are being implemented for Residential Calling and USA Savings InterLATA rates. Additionally, clarifying language on billing of calls is included for various services. RETURN DATE: September 9, 1996.
2. TARIFF NO. 96-282 - BELLSOUTH TELECOMMUNICATIONS, INC., in its General Subscriber Service Tariff, is introducing text to automatically renew its WaterSaver Service Term Discount Plans along with clarifying the conditions for termination of such.
3. TARIFF NO. 96-283 - UNITED TELEPHONE COMPANY OF THE CAROLINAS, in its General Subscriber Services Tariff, is adding "888" language where appropriate. RETURN DATE: SEPTEMBER 9, 1996.
- * 4. TARIFF NO. 96-286 - BELLSOUTH TELECOMMUNICATIONS, INC., in its General Subscriber Service Tariff, is proposing to obsolete Semi-Public Telephone Service in South Carolina. RETURN DATE: SEPTEMBER 17, 1996.
5. DOCKET NO. 95-1245-C - TLX COMMUNICATIONS, INC. (TELAMERICA) - Application for a Certificate of Public Convenience and Necessity to provide intrastate resold telecommunications services within the State of SC. Advise Commission of receipt of a tariff filed in compliance with their Certification Order No. 96-519.
6. DOCKET NO. 96-137-W/S - TEGA CAY WATER SERVICE, INC. - Application for approval of an increase in its rates and charges for water and sewer service. Advise Commission of receipt of a Petition to Intervene filed by Jean C. Varner on behalf of the City of Tege Cay.

JOHN F. BEACH, P.A.
ATTORNEY AT LAW

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August 21, 1995

The Honorable Charles W. Ballentine
Executive Director
South Carolina
Public Service Commission
Post Office Drawer 11649
Columbia, South Carolina 29211

RE: BellSouth Telecommunications, Inc. d/b/a Southern Bell Telephone and
Telegraph Company Request for Approval of the Consumer Price Protection
Plan in South Carolina
Docket No. 95-720-C

Dear Mr. Ballentine:

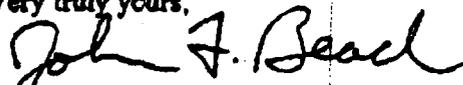
Enclosed is the original and five (5) copies of the Testimony of Clifton Craig for filing on behalf of the South Carolina Public Communications Association in the above-referenced docket. By copy of this letter, I am serving all parties of record and enclose my certificate of service to that effect.

Please acknowledge your receipt of this document by file-stamping the copy of this letter enclosed, and returning it in the envelope provided.

If you have any questions or need additional information, please do not hesitate to contact me.

With kind regards, I am

Very truly yours,


John F. Beach

cc: Mr. Clifton Craig
All parties of record

Enclosure
C:\wp51\SCPCA\BALLEN.ALT

**BEFORE THE
PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 95-720-C**

In RE:

BellSouth Telecommunications, Inc.)
d/b/a Southern Bell Telephone and)
Telegraph Company Request for Approval)
of the Consumer Price Protection Plan)
in South Carolina)

**TESTIMONY OF
CLIFTON CRAIG**

1 **Q. Please tell the Commission your name and business address.**

2 **A. My name is Clifton Craig and my business address is 1132 S. Center Road, Darlington,**
3 **SC 29532.**

4

5 **Q. By whom are you employed and in what capacity?**

6 **A. I am an owner of Carolina Payphone Systems, a South Carolina company providing**
7 **independent payphone services throughout the state. I am also the president of the South**
8 **Carolina Public Communications Association ("SCPCA") and am here today testifying**
9 **in that capacity.**

10

11 **Q. Would you please describe the South Carolina Public Communications Association?**

12 **A. Yes I will. The SCPCA is an association, whose members include operator service**
13 **providers, independent public payphone service providers ("IPPs"), and other**

telecommunications-related providers in South Carolina. Our organization's primary purpose is to assist its members in the responsible provision of payphone services in South Carolina. The SCPCA serves as an advocate for the payphone industry and engages in self-regulatory activities to help insure the responsible provision of payphone services to South Carolina citizens.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to outline why Southern Bell's proposed plan (the "CCCP") is not in the public interest, and should be rejected by the Commission. I will explain the dangers that Southern Bell's plan poses to general telecommunications consumers, and IPPs. In addition, I will demonstrate that payphone services in South Carolina are not currently subject to effective competition.

Q. Is the SCPCA against the loosening of regulatory constraints in the telecommunications market?

A. No, not at all. In fact, we eagerly look forward to the time when all telecommunications providers can compete in the marketplace on a level and truly competitive playing field.

Q. Why then is the SCPCA opposed to Southern Bell's proposed CCCP?

A. Sufficient competition has not yet developed in South Carolina for Southern Bell's plan to be in the public interest. Frankly, the only services offered by Southern Bell that are subject to any realistic competition today are those that Southern Bell has introduced to

1
2 compete against existing products. For example, it is probably true that Southern Bell's
3 memory call service effectively competes against existing services such as telephone
4 answering machines. The same can probably be said of competition between Call
5 Forwarding and similar functions provided on customer equipment. However, these
6 isolated examples of competition represent such a microscopic percentage of Southern
7 Bell's entire revenues that they are truly meaningless in the context of this proceeding.

8 Some of Bell's major services, such as intraLATA toll and special access, appear
9 to be heading toward a more competitive environment. However, the time when these
10 markets are subject to effective competition is still a long way off. For services such as
11 local dial tone and public telephone access, the current absence of competition is really
12 not even subject to debate.

13 Q. Is the market for payphone services in Southern Bell's South Carolina service area
14 currently subject to effective competition?

15 A. While it may seem so at first glance, the market for payphone services in South Carolina
16 is definitely not subject to effective competition. Any competition that exists is only
17 between IPPs for the limited market share that Bell has allowed them to acquire.

18
19 Q. Would you please explain why the market for payphone services is not subject to
20 effective competition?

21 A. First, I think that clarifying the markets that I will be discussing is important. Independent
22 public payphone providers must connect to the telecommunications network via public

1 telephone access service ("PTAS"). Southern Bell has placed PTAS in the
2 "Interconnection Service" category of its proposed plan. Southern Bell possesses a total
3 monopoly in the market for PTAS. Commission COCOT Guidelines require IPPs to
4 purchase a public telephone access line from Southern Bell for each payphone placed into
5 service. Without question, this service is not subject to any competition in South Carolina
6 at this time.

7 Public telephone service, on the other hand, is payphone service provided to the
8 end user. Southern Bell is the dominant provider of this service in its South Carolina
9 service areas. The Commission has allowed IPPs to provide this service since 1985.
10 However, during that 10-year period, IPPs have only captured 22% of this market in
11 Southern Bell's territories. This fact alone is strong evidence that competition does not
exist in the market for payphone services.

13
14 **Q. How did you determine that Southern Bell commands a 78% share of this market?**

15 **A. Independent payphone providers vie for business against Southern Bell's public and semi-**
16 **public telephones. At the end of 1994, Southern Bell had 13,192 public and semi-public**
17 **payphones in service, and provided 3,647 public telephone access lines to IPPs. Bell**
18 **Response to AT&T 1st Interrogatory, No.6, attached as Exhibit 1. Of the total 16,839**
19 **payphones in service, IPPs provided 22%. Southern Bell commands the remaining 78%**
20 **of the market.**

21
22 **Q. Why are these market share percentages an important factor in determining whether**

effective competition exists in the market for payphone services?

2 A. These figures illustrate that Southern Bell dominates this market so completely that in 10
3 years, IPPs have only captured 22% of the market. As Sandy Sanders points out in his
4 testimony, the IPP's 22% of the market is split among 1,070 individual providers. Even
5 if a single provider serviced this entire 22%, Bell's 78% market share would show
6 dominance. However, these 1070 IPPs spend most of their energies competing with each
7 other for that 22%. As a result, dominating this market with 1,070 unrelated service
8 providers has been much easier for Southern Bell than it would be if a single provider held
9 the entire the 22%.

10

11 Q. Have IPPs won in a competition with Southern Bell to serve these 3,647 independent
payphone locations?

13 A. No, they have not. For the most part, Southern Bell has simply allowed IPPs to compete
14 among themselves for low profit locations that Southern Bell did not care to serve in the
15 first place. I base this statement on my own experience as an independent payphone
16 provider. As it turns out, Southern Bell's own data strongly supports my conclusion.

17 It is not unusual for IPPs to receive calls from location providers, or the Public
18 Service Commission staff, requesting installation of a payphone where Southern Bell has
19 either refused to initiate service, or removed an existing payphone. Often, these locations
20 are in remote, low traffic areas where traffic volume has not justified installation of a Bell
21 payphone. Many of the 3,647 locations served by IPPs fall into this category. We fill
22 needs for payphone service that the LECs pass up as not being worth their time or effort.

1
2 Mr. Sanders is correct in asserting that IPPs prefer to serve high-traffic locations
3 such as truck stops, and in some instances we do. However, my experience is that when
4 Bell really wants to serve a particular location, they can and will do what it takes to obtain
5 the contract.

6 **Q. What evidence produced by Southern Bell in this proceeding supports the conclusion**
7 **that Bell is not losing significant high-traffic locations to IPPs?**

8 Discovery produced by Southern Bell in this proceeding shows that the vast majority of
9 payphone locations Bell has stopped serving in the last several years have been low or no
10 profit locations. Exhibit 2 shows the number of Southern Bell public telephones in service
11 for the years 1989 through 1994. Bell Response to AT&T 1st Interrogatory, No. 22.
12 Exhibit 3 shows revenues earned by Southern Bell from those public telephones for those
13 same years. Bell Response to AT&T 1st Interrogatory, No. 36. These numbers are
14 incorporated into the following chart, which also calculates Bell's annual revenue per
15 payphone:
16

Comparison of Bell Public Telephone Revenues: 1989 - 1994

Year	# Public Phones	\$ Revenues	\$ Revenues/Phone
1989	15,227	\$ 19,447,202	\$1,277
1990	15,961	19,622,830	1,229
1991	15,574	20,739,191	1,332
1992	14,034	20,856,331	1,486
1993	12,177	21,270,073	1,747
1994	11,714	21,185,367	1,809

The number of Bell payphones in service has steadily decreased from 15,227 in 1989 to 11,714 in 1994. During that same period, the annual revenue per phone has steadily increased from \$ 1,277 in 1989 to \$1,808 in 1994. Perhaps even more telling is the fact that Southern Bell has managed to increase total revenues from its payphones from \$ 19.5 million to \$ 21.2 million while decreasing its total payphones in service by 3,500.

This graphically proves that Southern Bell has used the existence of IPPs in the marketplace to increase its market power by passing its unprofitable locations to IPPs, while retaining the cream for itself. Besides achieving a substantial increase in payphone revenues, Bell has also substantially reduced its cost of earning these revenues by reducing the number of pay stations it must service.

Q. What factors have allowed Bell to so thoroughly dominate the market for payphone services in South Carolina?

A. The most important factor is that IPPs depend exclusively upon Southern Bell's public

1 telephone access service in order to survive. Southern Bell provides this service to IPPs
2 in exchange for a flat monthly charge and a usage-sensitive per-minute charge.
3 Significantly, Southern Bell does not charge itself for these access services, nor does it
4 impute the cost of these services to its own payphone operations.
5

6 **Q. How does this arrangement increase Southern Bell's market dominance for payphone
7 services?**

8 **A. Southern Bell totally controls the IPP's cost of providing payphone service by charging
9 a flat monthly rate ranging from \$30.24 to \$38.40 (depending upon geographic area;
10 includes operator screening). In addition, Southern Bell charges a per-minute rate of \$.04
11 for the initial minute and \$.02 for succeeding minutes of local use (on peak). Southern
12 Bell's cost for providing the flat rated portion of this service is \$18.08/month. Exhibit 4.
13 Bell's per-minute cost is around 1 1/4 c for the initial minute and 1/10 c per minute for
14 succeeding minutes of local use (on peak). Exhibit 5 (proprietary), attached to
15 Commission's copy of this testimony under seal, by agreement with Southern Bell. This
16 means that Southern Bell is earning a profit of up to 112% on the flat-rated portion of this
17 service, and well over 500% on the usage-sensitive portion, based upon the average local
18 call length of 2.6 minutes.
19**

20 **Q. Why is Southern Bell's profit on public telephone access service significant to the
21 Commission's decision in this proceeding?**

22 **A. The extreme level of profit earned by Southern Bell on this service is important for two**